

Message Text

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PAGE 01 LONDON 19896 091705Z

70

ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 ACDA-10 MC-02 OMB-01 TRSE-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8597

INFO SECDEF

AMEMBASSY TEHRAN

UNCLAS LONDON 19896

E.O. 11652: N/A

TAGS: IR UK MASS ENRG

SUBJECT: IRAN-UK DEFENSE CONTRACTS

1. FOLLOWING IS CONDENSATION OF ARTICLE FRONT-PAGED IN FINANCIAL TIMES DECEMBER 9, HEADLINED, "TALKS ON IRAN DEFENCE DEALS RESUME NEXT WEEK":
NEGOTIATIONS ON OUTSTANDING BRITISH DEFENCE CONTRACTS WITH IRAN WILL BE RESUMED HERE NEXT WEEK TO RESOLVE DIFFERENCES OVER PAYMENTS FOR MILITARY EQUIPMENT, PROJECTS, AND SERVICES. AT CENTER OF NEGOTIATIONS IS IRAN'S PRESSURE ON BRITAIN TO SWITCH THE BASIS OF SALES FROM CASH AND CREDIT TO OIL BARTER ARRANGEMENTS. HIGH ON AGENDA WILL BE ORDNANCE FACTORY IN ISFAHAN, PUT ON CARE AND MAINTENANCE BASIS THREE MONTHS AGO. THIS BEING CONSTRUCTED BY CONSORTIUM OF LAING AND WIMPEY UNDER AEGIS OF MILLBANK TECHNICAL SERVICES AND IS BIGGEST SINGLE CONTRACT UNDERTAKEN BY UK IN MIDDLE EAST. IT WOULD COST 770 MILLION POUNDS, ALMOST DOUBLE INITIAL ESTIMATES.

2. INQUIRY INTO EXPENDITURE TO DATE AND IRAN'S REAL NEED FOR THIS COMPLEX BEING CARRIED OUT AND WILL BE PRESENTED TO VICE MINISTER OF WAR TOUFANIAN WITHIN THE NEXT TEN DAYS. BELIEF IS PROJECT WILL BE REDUCED. IRANIANS WANT TO SWITCH PAYMENT FROM CASH TO BARTER ARRANGEMENT SIMILAR THAT FOR RAPIER MISSILES SIGNED
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WITH BAC THREE WEEKS AGO. FINANCING ISFAHAN PLANT THIS

WAY WOULD BE INFINITELY MORE COMPLEX: PARTIES WOULD HAVE TO NEGOTIATE WITH NON-BRITISH SUB-CONTRACTORS, LOCAL EXPENDITURE IN IRANIAN RIALS WOULD HAVE TO BE DEDUCTED, AND BP AND SHELL ARE RELUCTANT TO COMMIT THEMSELVES TO RECEIVING VOLUMES OF INCREMENTAL OIL OVER LONG PERIOD EVEN AT DISCOUNT.

3. OTHER DEALS TO BE DISCUSSED INCLUDE OIL-FOR-ARMS BARTER ARRANGEMENTS FOR PURCHASE OF LL0 ADDITIONAL SCORPION TANKS, FOUR 8000-TON SUPPLY SHIPS WORTH 90 MILLION POUNDS, ARMORED RECOVERY VEHICLES, AND PAYMENT FOR CONTRACT WORK AT CHAH BAHAR NAVAL BASE. WORK ON LATTER BEGUN BY COSTAIN EARLIER THIS YEAR BUT FOR SOME MONTHS LITTLE HAS BEEN DONE PENDING REASSESSMENT OF PROJECT.

4. COPIES OF FULL TEXT POUCHED TO NEA/IRN AND TO POL/MIL SECTION IN EMBASSY TEHRAN.

ARMSTRONG

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Message Attributes

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